DOCUMENT RESUME

ED 159 793 EA 010 902

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TITLE A Study of Expenditure Controls with Special Emphasis for New York State. Occasional Paper #15.
PUB DATE [78]
NOTE 40p.

EDRS PRICE MF-$0.83 HC-$2.06 Plus Postage.
DESCRIPTORS Educational Finance; Elementary Secondary Education; Equal Education; Equalization Aid; *Expenditures; *Finance Reform; *School District Spending; State Aid; State School District Relationship
IDENTIFIERS *New York

ABSTRACT

Although New York State now has several educational expenditure controls, more are needed. Currently, the city districts have constitutional tax limitations, while in the independent districts the voters exercise control over expenditures. Nevertheless, the wide differences among school districts of unequal wealth are growing. There are two basic purposes for expenditure controls in New York State: to decrease the expenditure gap between rich and poor districts and to restrain increases in operating expenditures in the local districts and thus provide property tax relief. Proposed expenditure controls take the form of expenditure limitations or state aid formulas. Expenditure limitations may be simple dollar limitations or tax limitations. In New Jersey, the budget cap system has kept expenditures down in a number of school districts. The purpose of state aid formulas is to narrow the expenditure gap between rich and poor districts. State aid formulas might take the form of power equalization plans, full state funding, or the Oregon type of foundation plan. No one step or method alone can satisfactorily decrease the expenditure gap and restrain increases in local operating costs. Both a system of expenditure limitations and a revised or new basic state aid formula are needed. (Author/JM)

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A STUDY OF EXPENDITURE CONTROLS WITH SPECIAL EMPHASIS FOR NEW YORK STATE

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EA 010 902

Public Law 93,380,
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OCCASIONAL PAPER #15

A STUDY OF EXPENDITURE CONTROLS WITH SPECIAL EMPHASIS FOR NEW YORK STATE

Some expenditure controls or limitations already exist in New York State. In the city districts there are Constitutional tax limitations. In the other school districts, the independent districts, the voters exercise control over expenditures. They can express their opinions at budget hearings. They can vote high spending or low spending board members into or out of office. Finally, they approve or disapprove the annual school budget.

These and other expenditure controls are examined and discussed in the following pages. The principal goal of this study is to explore the different methods by which the State aid law could provide means of limiting expenditures.

A related and important concern of this study is the widening expenditure gap in New York State among school districts of varying property wealth and the need to narrow this gap through expenditure controls.

PURPOSES OF EXPENDITURE CONTROLS FOR NEW YORK STATE

There are two basic purposes for expenditure controls in New York State:

1. To decrease the expenditure gap between high and low expenditure districts.
2. To restrain increases in operating expenditures in the local school districts and thus to provide some property tax relief.

SUMMARY OF LIMITATIONS

There are at least two basic ways a state can impose limitations on the expenditures of local school districts. One, the state can limit local expenditure increases. In 1975-76 and/or 1976-77 Arizona, California, Colorado, Iowa, Kansas, New Jersey, and Wisconsin incorporated such a feature in their state aid formulas. Several of these states applied different limits, usually expressed as percentage increases over the previous year's expenditures. Two, states can limit the tax rate a district may use to raise funds for schools or set a tax limitation, as is done in Florida, Georgia, and New York (for city school districts only).

In some cases these limitations may be circumvented by voter overrides or as in the case of New Jersey by appeal of the local board of education and approval of the State Commissioner of Education.

Table 1 summarizes limitations imposed by various states.

Existing Limitations in New York State

The Constitution of New York State provides that in city school districts of 125,000 population or less the amount to be raised by tax on real property in any fiscal year for educational purposes shall not exceed an amount equal to a specified percentage of the five year average full valuation of taxable real estate in the district, not including the taxes levied in such a year for the redemption of bond indebtedness. This percentage may be raised only 1/4 of 1 per cent at a time and only after approval of the

voters--60 percent or more of those voting. The absolute limit is 2 percent.[1]

Also excluded by legislation from the computation of tax limitations are the annual pension and social security contributions. This provision expands the real estate taxing power of the cities.[2]

For the large cities with population exceeding 125,000 the real property taxes for school and nonschool purposes must be financed within a single overall tax limit of 2-1/2 percent for New York City and 2 percent for Buffalo, Rochester, Syracuse, and Yonkers.[3]

In other than the city school districts the voters approve or disapprove the annual school budget. They determine by a vote any increase in the budget. However, it is true that they vote only on those items excluded from a contingency budget.

New Jersey provides an example of a nearby state that has imposed statutory limits or "caps" on spending by local school districts. Furthermore, it has a tax reform program providing limits on spending at all levels of government--county, municipality, and state.

The budget cap process is part of the Public School Education Act of 1975 (Chapter 212, Laws of 1975), "providing for a thorough and efficient system of free public schools:"

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1 Art. 8, Sec. 10, New York State Constitution.

2 William S. Hageny, School Law, New York State, School Boards Association, 1974, 1975.

3 Ibid.

TABLE 1

STATE LIMITATIONS ON REVENUE OR EXPENDITURE INCREASES
1977

STATE (1)	LIMITATIONS ON REVENUE OR EXPENDITURE INCREASES (2)
Arizona	Set by the legislature with recommendations from the Economics Estimates Commission. A higher rate of increase allowed for those districts below average support level. Local override permitted with vote.
California	If a district's prior expenditure per pupil plus a specified inflation increase exceeds the foundation level, then district is restricted to a revenue increase of 5-6%. Districts below the foundation level may increase revenue per pupil 15-16% annually. Local override permitted with vote.
Colorado	Revenue base can increase annually between 7 and 12%, with low spending districts allowed a greater increase. Subject to increase by State Budget Review Board or district voter override.
Florida	8 mills, maximum nonvoted levy.
Georgia	A levy increase above 20 mills required majority voter approval.
Iowa	Maximum increase in budget per pupil of 9.825% for districts above Statewide average expenditure; increase up to 125% of the maximum for districts below average expenditure.
Kansas	Increase limited to lesser of (1) 15% of budget per pupil in 1974-75 or (2) 7% of median budget per pupil of all districts in the same enrollment category. Budget appeal process for new or improved programs.
New Jersey	Ceiling on percent increase allowed for current expense per pupil. Waiver can be obtained with Commissioner's approval. (See text for description).
New York	Constitutiontal tax limitations on the cities only. (See text for description).
Wisconsin	Limit of 9.5% increase in budget per pupil. Appeal for greater increase to State Superintendent. Voter override allowed.

Source: Education Finance Center, Department of Research and Information, Education Commission of the States, "School Finance at a Second Glance," March 1977.

18A:7A-25

A district which has a net current expense budget per pupil in the prebudget year of less than the State average net current expense budget per pupil may increase its net current expense budget per pupil in the following year by no more than an amount found by multiplying three-fourths of the latest annual percentage increase in the total State equalized valuation by the State average net current expense budget per pupil for the prebudget year, and multiplying the product by the quotient resulting from dividing the State average net current expense budget per pupil by the school district net current expense budget per pupil for the prebudget year; provided, however, that in no event shall the figure used for the latest annual percentage, increase in the total State equalized valuation be less than the average of such percentage increases for the latest 3 years. Any other district may increase its net current expense budget per pupil by no more than an amount found by multiplying three-fourths of the latest annual percentage increase in the total State equalized valuation by the school district's net current expense budget per pupil for the prebudget year, and multiplying the product by the quotient resulting from dividing the State average net current expense budget per pupil by the school district net current expense budget per pupil for the prebudget year. For the purpose of these calculations, the enrollment of a district shall be assumed to remain constant between the prebudget year and the year during which the budget will be implemented.

Annually, on or before November 15, the commissioner shall certify to each local board of education the amount by which the school district may increase its budget for the next year without exceeding the permissible rate of increase.

The commissioner may approve the request of a local board of education for a greater increase, having judged that (1) a reallocation of resources or any other action taken within the permissible level of spending would be insufficient to meet the goals, objectives and standards established pursuant to this act, or (2) an increased enrollment may reasonably be anticipated in the district.

The process is not a completely rigid one. The last part of Section 25 gives the Commissioner of Education the right to review and approve requested increases above those allowed by law.

Objectives of the New Jersey Law

The placing of statutory limits on expenditure increases in local school budgets could accomplish several goals or objectives:

1. To take local money, raised by the property tax, out of the school finance system as new funds raised at the State level become available. The limits are set to keep educational costs from absorbing State aid increases. Property tax relief should be effected.

2. To prevent large and inefficient expenditure increases in school districts where State aid is increased.

3. To limit the liability of State support of district budgets. To prevent open-ended State aid obligations, these statutory limits impose a maximum limit on annual spending increases. For 1976-77 the permissible margin of increase was $200 million or 9.6 per cent of the previous year's total net current expense budget.

4. To encourage an equalization of school spending; that is, to decrease the expenditure gap between high and low expenditure districts. This equalizing aspect of the formula allows the low expenditure district to increase its expenditures at a higher rate annually than it allows the high expenditure district.

Formula Calculations for the New Jersey law

The budget cap process in New Jersey starts at the State level and is administered through the offices of the county superintendents of schools.

The caps or statutory limits are determined as follows:

1. The State Education Department establishes the State net operating budget (N.O.B.) per pupil in dollars and the State equalized valuation per cent increase.

2. If the local district has an N.O.B. per pupil which is greater than or equal to the State N.O.B. per pupil, the application of the formula is as follows:

   a. (State N.O.B./Pupil) divided by (District N.O.B./Pupil) times (State Equalized Valuation) equals (the percent Increase in N).

   b. (The Percent Increase in N allowed on the 1976-77 N.O.B.) times the (District 1976-77 N.O.B.) equals the (Increase in Dollars for the 1977-78 (Budget).

   c. (Increase in Dollars for the 1977-78 Budget) plus the (1976-77 District's N.O.B.) equals the (1977-78 District's N.O.B.).

   d. The result in (c) above is transferred to a worksheet; after local "add-ons" the maximum total permitted budget for 1977-78 is established. "Add-ons" include free balance appropriated, tuition received, federal aid, categorical aid, miscellaneous revenue.

In translating the above formula into dollars, let us assume that:

1. The equalization State valuation percent increase is 7.1766.

2. The State N.O.B. per pupil is $1506.

3. District A has an N.O.B. per pupil of $2000.

4. District A has a 1976-77 N.O.B. of $4,000,000.

5. District A has a resident enrollment of 2000.

The formula is calculated thus:

1. $\frac{1506}{2000} \times 7.1766 = 5.4040\%$

2. $5.4040 \times 4{,}000{,}000 = \$216{,}160$

3. $\$216{,}160 + 4{,}000{,}000 = \$4{,}216{,}160$

The amount of $4,216,160 is the starting figure on the worksheet to arrive at the maximum permitted total current expense budget.

The application of the formula for a district with an N.O.B. per pupil less than the State average has one variation. The initial quantity is squared. Thus:

$$\left(\frac{\text{State N.O.B./Pupil}}{\text{District N.O.B. Pupil}}\right)^2$$

Calculations will result in a higher percentage increase allowed. The districts with lower expenditures (less than the State average) can increaase their N.O.B. by a larger percentage than the higher expenditure districts (those above the State average). Theoretically, this will allow the lower expenditure districts to catch up with the higher expenditure districts.

Administration-Results-
Effectiveness

This is the second year the law has been in effect in New Jersey. How effective has it been? Has it contained and reduced expenditures? How many appeals have there been to increase expenditures above those allowed by law? How many requests have been granted? How costly or cumbersome is the budget cap process? Has the expenditure gap been narrowed?

The Act provides that the Commissioner of Education may approve the request for a greater increase, having judged that (1) a reallocation of resources or any other action taken within the permissible level of spending would be insufficient to meet the goals, objectives and standards established persuant to the

Act, or (2) an increased enrollment may reasonably be anticipated in the district.

The request for a greater increase than that calculated under the law is initiated by the local board of education. It is submitted to the county superintendent and then to the State for review.

An analysis recently completed showed that 78 local boards of education petitioned for 1977-78 budget cap increases totaling $23,290,800. These 78 boards comprise about 13 percent of the 600 local school districts of the State. The Commissioner approved 41 percent of the amount requested, $9,645,565. Thirty budget increases sought were denied in their entirety, while 41 districts received approval for only a portion of the amount requested. Only seven districts received the full amount requested.[1]

Of the 78 districts which applied for cap increases, 17 based their request on enrollment increases, 45 asked for waivers to meet program needs and goals, and the remaining 16 districts sought increases for a combination of the two needs.[2]

As shown by the above analysis, budget caps have kept expenditures down in a number of local school districts. Furthermore, it is assumed that the caps restrained cost increases in other districts that did not petition for cap relief.

Reportedly, the expenditure gap has decreased very slightly. Reportedly, also, the administration of the budget cap process has not been costly or cumbersome. But no figures are

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[1] State of New Jersey Official News Release, Department of Education, April 6, 1977.

[2] Ibid.

available yet on either of these matters.

There has been no evaluation completed of the effect of the budget caps on the educational programs of the districts. However, an eventual leveling of expenditures among school districts could erode the quality of education in those high expenditure districts which may have to discontinue programs because of budgetary limitations. Historically, it has been the high expenditure districts that have been the "lighthouses," those districts that have provided leadership, that have shown the way. Limiting their budget increases may also limit their capacity to initiate new programs and retain programs.

Equalized Valuation
as an Index

Equalized valuation was considered in New Jersey to be a more stable index than other indices like the consumer price index. It has been increasing at about 10 percent a year. The formula does not, however, use the entire percentage increase, but only .75 of the latest annual percentage change in statewide equalized valuation or .75 of the most recent three year average percentage increase in order to calculate the basic growth rate allowed in a district budget. The current figure (equalized valuation percent increase) is 7.1766. Last year's figure was 8.7858. Caps will be more stringent if this figure continues to decrease.

EXPENDITURE CONTROLS OR LIMITATIONS FOR NEW YORK STATE

Fixed Dollar Limitations

As long ago as 1961 Mort recommended that "a limit be placed upon annual increases in per pupil expenditures in which the State will share." He proposed that the maximum increase over the preceding year's expenditure should not exceed $50.00 per weighted pupil, except in those districts spending "in excess of $50.00 below the minimum expenditure level to be specified by the Board of Regents in accordance with the equalization of educational opportunity provision." However, under his plan the local district could fully assume any increase in excess of $50.00.[1]

One purpose of Mort's proposal was to assure the prudential use of State monies.

New Jersey's budget "caps" legislation, now in its second year, is an example of the percentage approach. A maximum annual percentage increase is calculated on formula. A district may exceed this percentage only upon appeal to and approval of the State Commissioner of Education.

The expense limits proposed this year by the Governor of New York are another example of the percentage approach. The proposal is included below in the Appendix.

This proposal needs careful consideration and certainly some revision.

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[1] Paul R. Mort, "Unification of Fiscal Policy in New York State," Perspectives on the Economics of Education, Boston, Houghton Mifflin Co., 1963, p. 348.

Under the New Jersey budget cap program increases have ranged from about 6 to 12 percent, with the high spending districts near or below 6 percent and the low spending ones above 6 percent. Some districts have found it necessary to request cap relief (a greater increase than allowed under the law) in order to finance educational programs and increases in enrollments. After review some of the requests have been judged by the Commissioner of Education to be legitimate and have been approved in part or in toto.

This experience in New Jersey would indicate that the 2.0 to 6.6 percent increases proposed in New York for 1978-79 are low. High expenditure districts would be held to 2 percent. The inflation rate is near 5 percent.

The Consultant applied the New York and New Jersey formulas to several New York districts to estimate what the percentage increases in approved operating expenditures would be. For Salamanca, for instance, a district spending well below the State average, the increase allowed, under the New Jersey-type formula, would be about 15 percent; under the New York formula, as proposed, 6.6 percent. For Great Neck, a district spending well above the State average, the increase allowed, under the New Jersey formula, would be about 4 percent; under the New York formula, 2 percent.

Provision should be made in the proposed New York law for flexibility in the expense limits. Districts with valid reasons should have the right to petition for increases above those established by law, as they can in New Jersey. Increases in enrollment and needs of pupils should be the bases for such relief.

Consideration should be given to relating increases in New York to another index, to the State equalized valuation, for example, as in New Jersey, rather than the New York-Northeastern New Jersey Consumer Price Index.

Tax Limitations

In New York there are Constitutional tax limitations on the cities only. (See above under Summary of Limitations).

The taxes levied for operating expenses for the other school districts in the State are in no way affected by any tax limits imposed by the Constitution

Is it feasible to expand this tax limitation to other districts? The tax limitation has already posed a problem in the cities. If not for the exclusion of the costly pension and social security contributions, the cities would be over their tax limitation. A similar tax limitation, expanded by legislation to all school districts throughout the State, would, no doubt, hold down some tax levies, but many districts would experience the same problem that the cities are now experiencing--staying within the tax limitation. The exclusion of pension and social security contributions would have to be continued. Of course, the tax limitation could be rewritten to, say, 2-1/2 percent. This would provide more leeway, and the statutory exclusion of the pension and social security contributions could be discontinued.

Such an expansion of tax limitations in New York would probably have no effect on the existing expenditure gap.

Limit by Popular Vote in New York

In most of the school districts of New York, the so-called independent districts, the voters approve or disapprove the annual school budget; that is, they determine by a vote the local levy on property. In effect, the voters themselves can and do limit expenditures and expenditure increases. Moreover, they can express their opinions regarding expenditures at local budget hearings. They can also vote high spending or low spending board members into or out of office.

In a democracy this may be the best kind of limit, rather than a limit imposed by the State. Fiscal decisions are probably best made by those most affected by them.

However, it is important to note that the voters actually have control over only a small part of the budget, those items excluded from contingency budgets.

EXPENDITURE CONTROLS THROUGH STATE AID FORMULAS

Expenditure limitations, as discussed above, are on top of or in addition to basic state aid formulas. Consideration should be given in New York to various state aid formulas and to their potential for limiting or controlling expenditures.

Oregon Plan

The Oregon plan may provide a means to restrain cost increases and to reduce the expenditure gap or at least to keep it

from widening.

The purpose of this type plan is to keep the foundation level current with annual cost increases, as measured by such an index as the average increase in operating expenditures per pupil in a state or the consumer price index. If the foundation level is not kept current with annual cost increases, the program guaranteed to pupils is likely to be eroded, especially in districts of low property wealth where expenditures are at the foundation level. Also, as these districts remain at or near the foundation level, high wealth, high expenditure districts continue to raise their expenditures, thus widening the expenditure gap.

This type plan can also restrain increases in expenditures. Appropriations can be limited or held constant while the foundation level is increased. This means an increase in the local tax rate. Thus, cost increases are restrained by adding to the local tax burden. The restraint can be greatest among the districts of higher property wealth and higher expenditure.

Power
Equalization

It is claimed that a power equalization type formula reduces the difference in expenditures between property rich and poor districts because it requires the same local tax effort regardless of district wealth to provide a program at a given expenditure level and that the formula obviates the need for expenditure limitations because of the relatively high cost of high expenditure programs to local districts.

In its so-called Serrano decision the California Supreme

Court suggested several alternative methods of financing the public school system in that state which would not produce wealth - related spending disparities. One of these methods was school district power equalizing. This method or concept is this: School districts can choose to spend at different levels but for each level of expenditure chosen the tax effort would be the same whether it be a high wealth or low wealth district.[1]

This "equal yield" plan, in which school districts receive equal dollars per pupil for equal millage effort, is accomplished by providing greater state funds to districts of low porperty wealth and less to districts of high property wealth. A combination of state and local revenues equals a specified amount, which in Michigan is called the guarantee level.

This type formula can work to decrease the revenue and expenditure gaps, if the millage reimbursement ceiling is high enough or unlimited and if the lower wealth, lower spending districts choose to spend as much as the high wealth, high spending districts.

The equal yield concept does not, it should be emphasized, necessarily eliminate the expenditure gap, for embodied in the concept is the right of the local community to establish its own educational goals and to decide how much it is willing to spend to reach these goals. Expenditures are essentially determined and approved at the local level by a vote of the public. However, the capacity to reach these goals should not be limited by the tax wealth of a district. A power equalization type formula, when

[1] Serrano v. Priest (Dec. 31, 1976) 135 Cal. RPTR 345, 557 P. 2d 929.

accomplished fully, will make expenditures independent of a school district's taxable wealth.

In Michigan the "equal yield" concept has the following objectives:

1. Reduce the effects of property tax wealth on determining school revenues.

2. Reduce the variation of millages among districts by giving incentives for low-millage districts to increase their effort, while decreasing the necessity of low-SEV (State Equalized Valuation) districts to levy high millages.

3. Increase the revenues available in previously low-spending districts without decreasing revenues in high-spending districts.

4. Provide greater equity within the property tax structure and provide some measure of property tax relief.

The objectives have all been accomplished to a certain degree. Disparities in school revenues due to property tax wealth have been reduced, though not eliminated, as shown in Table 2. Operational millages have increased most among previously low-millage districts while increasing less among previously high-millage districts.[1]

Fully accomplished, a power equalization type formula, like that in Michigan, can make expenditures independent of a school district's taxable wealth. Also, such a formula has the support of the courts, at least in California. But will it limit expenditures? A millage reimbursement ceiling may limit expenditures to some degree, but apparently not significantly. In Michigan, where a power equalization type formula now operates, expen-

[1]Dr. James L. Phelps, "The Equal Yield Concept in Michigan: Third-Year Results."

TABLE 2

REVENUE GAP BETWEEN $10,000 SEV AND $40,000 SEV DISTRICTS*

LEVYING THE SAME OPERATIONAL MILLAGE

State of Michigan

YEAR (1)	20 MILLS (2)	22 MILLS (3)	25 MILLS (4)	27 MILLS (5)	30 MILLS (6)	35 MILLS (7)
1969-70	$299	$354	$449	$509	$599	N/A
1974-75	20	22	25	85	175	$325
1975-76	-0-	4	9	12	100	250
1976-77**	-0-	1	2	3	63	213
1977-78**	-0-	-0-	-0-	-0-	-0-	150
1978-79**	-0-	-0-	-0-	-0-	-0-	-0-

*SEV = State Equalized Valuation

**Based on current State Aid Act (P.A. 258 of 1976)

diture limitations are being considered. These limitations would be on top of the existing formula.

Out-of-Formula Districts
in New York State

Consideration should be given to providing operating aid solely on formula. This would mean the elimination of flat grants to property-rich districts. Such a loss in state aid might hold expenditures down in these districts. The funds currently distributed under the flat-grant provision would be distributed as equalization aid. Funds are thus released for the districts with less property wealth.

Recapture or negative aid may have potential in holding expenditures down in high-spending, property-rich districts. Revenue generated in a property rich district above a certain level (state guarantee level) might be subtracted from that district's state aid, categorical aid, for example. This "Robin Hood" provision would recapture funds from property rich districts to be distributed to property poor districts. Recapture could work in conjunction with a power equalization type formula.

Full State Funding
in New York State

Full funding of New York's public elementary and secondary education was studied and recommended by the Fleischmann Commission. The Commission felt that under full state funding every student in the State would have equal educational opportunity and that the quality of his education would not depend upon

property values in the particular area where he happened to live.[1] The Expenditure gap would be eliminated.

But what about expenditures - would they be limited? Perhaps they would among the high expenditure districts which would be required to "phase down" their expenditures to the full State funded level, but not among the low expenditure districts where costs would necessarily increase. Because it would be necessary to "level up" and because it would be difficult, if not impossible, to "level down," full State funding would result in higher overall expenditures in the State.

THE EXPENDITURE GAP IN NEW YORK STATE

In New York the expenditure gap has been widening in recent years. The following graph, prepared by the Bureau of Educational Finance Research, shows that the percentage gap in expenditures per pupil between high and low expenditure school districts in New York State has increased annually and sharply since 1968-69.

In 1968-69, the lowest ten percent of the school districts in the State spent $775 per pupil or less and the highest ten percent spent $1,164 or more; the higher figure exceeded the lower by 54 percent. In 1974-75, the comparable figures were $1,088 and $2,044 per pupil, for a gap of 88 percent.

Disparities in expenditures are a national concern in

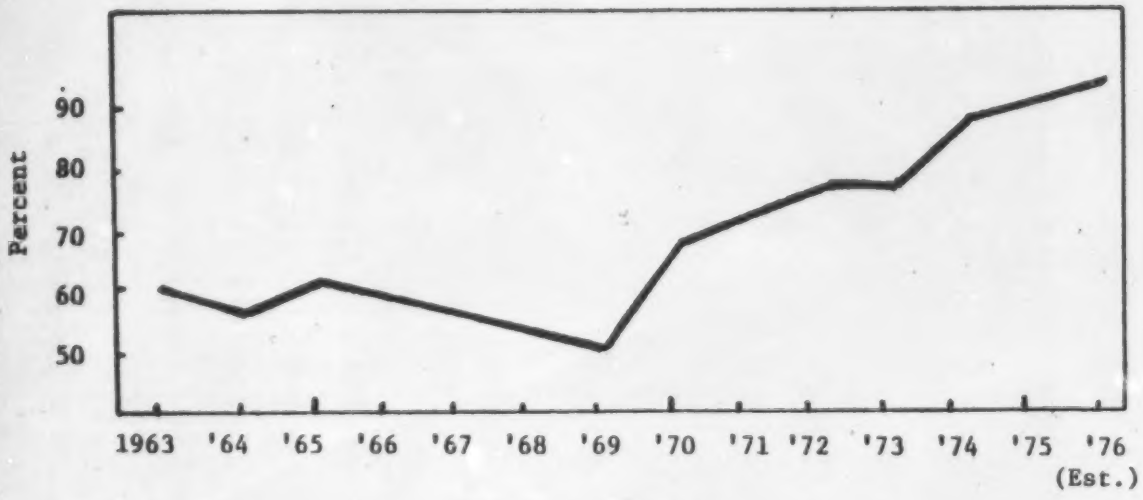
[1] Report of the New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, 1973, Vol. 1, Chap. 2.

FIGURE 1

PERCENT VARIATION IN EXPENDITURES PER PUPIL

BETWEEN SCHOOL DISTRICTS AT 10TH AND 90TH PERCENTILES

1962-1975



education since courts in California and New Jersey have spoken on the issue. The California Supreme Court "tentatively concluded that the state's system of public school finance denies children the equal protection granted under the 14th Amendment, because it produces substantial disparities among school districts in the amount of revenue available for education."[1] California's system of public school finance, like New York's, relies heavily on the property tax and the "disparities" are unequal expenditures per pupil.

The courts may in the future find that New York's system of finance needs revision in order to narrow the expenditure gap.

There could be regional differences in cost in New York State. Districts in up-state New York may very well get more for their educational dollar than districts in southeastern New York.

There could and probably should be some variation in per pupil costs throughout the state, based on these regional differences. Some experimental innovative programs could also account for differences in costs. The courts have not ruled that costs must be identical but that there is too great a disparity, as in California and New Jersey. The gap does not have to be eliminated, but narrowed.

It would seem that if a State has a formula which aims to work toward reducing the disparity between high and low spending districts the courts will uphold that State's system of educational finance.

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1 Serrano v. Priest (Dec. 31, 1976) 135 Cal. RPTR 345, 557 P 2D 929.

The Serrano decision did not rule the property tax unconstitutional, did not require equal expenditures per pupil, nor did it require an end to local choice of expenditure levels. What it did say was: the educational opportunity of a student should not be limited by a district's tax wealth. The decision listed several alternative methods of financing a public school system which would not produce wealth-related spendin- disparities. These included full state funding with the imposition of a statewide property tax and power equalization "which has as its essential ingredient the concept that school districts could choose to spend at different levels but for each level of expenditure chosen the tax effort would be the same for each school district choosing such level whether it be a high-wealth or low-wealth district.[1]

RECOMMENDATIONS

At the beginning of this paper are listed two basic purposes for expenditure controls in New York State:

1. To decrease the expenditure gap between high and low expenditure districts.
2. To restrain increases in operating expenditures in the local school districts and thus to provide some property tax relief.

Certainly, there are valid reasons for New York State to move toward restraining operating costs (all educational costs for that matter) and to narrow the expenditure gap. Local costs of education and property taxes have risen to the burdensome point in

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[1] Serrano v. Priest (Dec. 31, 1976) 135 Cal. RPTR 345, 557 P 2D 929.

many districts. There is a need in these districts to restrain costs and provide some property tax relief. Also, the increasing disparity in expenditures per pupil between high and low expenditure school districts is a matter of concern. The trend should be reversed and the disparity reduced in order to ensure equal educational opportunity to all of the State's pupils.

Historically, in New York except for the Constitutional tax limitations in the cities fiscal control has been in the hands of the local districts. Local boards of education prepare their budgets. The resident voters approve or disapprove the budgets. Moreover, the taxpayers have a right to voice their opinions at annual budget hearings, and they elect the board members who prepare the budgets. In effect, the voters can and do exercise control over expenditures.

However, local fiscal control does not guarantee any restraint in cost increases. Nor has it resulted in a narrowing of the expenditure gap. On the contrary, the gap has been widening since 1968.

Expenditure controls, controls on operating expenditures, may be achieved by the State in various ways: by tax limitations, by so-called expenditure caps, and by a state aid formula itself. These methods have been discussed above.

Expenditure limits or caps, similar to those employed in New Jersey or to those proposed by the Governor of New York, can and should be imposed by New York State to restrain increases in operating costs in local school districts. Reduced expenditures should result in some property tax relief. Moreover, under these

same limits, low expenditure districts should be permitted to increase their expenditures at a higher rate annually than high expenditure districts. This provision should help in decreasing the expenditure differentials now existing in New York State.

The limits proposed by New York's Governor are restrictive, ranging from 2.0 to 6.6 percent for 1978-79. Those employed in New Jersey and California, too, with a range of 5 to 15 percent, are more realistic in terms of the inflation rate of 5 percent. Though, in order to reduce the expenditure gap more quickly, there is an argument for keeping increases among the high expenditure districts below the current area inflation rate.

It is suggested that at this time annual increases in operating expenditures range from 4 percent for high expenditure districts to 10 percent for low expenditure districts.

Expenditure limitations should not be completely rigid. There should be an appeal process, as there is in New Jersey. This will allow a district t- present its case for an increase above that allowed by law. Reasons for exceptions might include enrollment increases, program and pupil needs. However, flexibility should not extend to voter overrides.

Budget caps are probably a satisfactory answer for restraining cost increases, but are only a partial answer for reducing the expenditure gap. What will probably occur is this: The high expenditure districts will raise their costs per pupil to the maximum percentage or amount allowed under the law, whereas the low expenditure districts will not. Low expenditure, property poor districts will need more encouragement to increase their

expenditures than is provided under budget cap legislation.

In short, more is required than budget cap legislation. This "more" is a revision in the basic state aid formula or the adoption of a new one similar to the Oregon Plan. As described above, such a plan provides for the raising of the foundation level annually in keeping with cost increases and at the same time restraining increases in expenditures, particularly among the districts of high property wealth and high expenditures.

In regard to formula revision, consideration should also be given to phasing out flat grants to the property-rich districts of the State and to using these monies for equalization aid. This step should discourage cost increases in the high wealth districts and assist in narrowing the expenditure gap.

In summary, no one step or method by itself will satisfactorily achieve the stated purposes of decreasing the expenditure gap and of restraining increases in operating costs in the local school districts of the State. Needed are both a system of expenditure limitations and a revised or new basic state aid formula.

APPENDIX A

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BIBLIOGRAPHY

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APPENDIX B

NEW YORK STATE

EXECUTIVE BUDGET OPERATING AID PROPOSAL FOR THE 1978-79 SCHOOL YEAR

NEW YORK STATE

EXECUTIVE BUDGET OPERATING AID PROPOSAL FOR THE 1978-79 SCHOOL YEAR

The purpose of the operating aid formula propsed for the 1978-79 school year is to assure school districts that the State will share in the cost of inflation in the future for districts which limit their annual total local levy.

A. Operation of Proposed Expense Limits:

Under the 1978-79 operating aid proposal, a district must limit its net educational expense per pupil for both the 1977-78 and succeeding school years by a formula which is related to the annual change in the New York - Northeastern New Jersey Consumer Price Index.

A district's 1975-76 net educational expense per pupil will determine the amount which it may increase its 1977-78 net educational expense per pupil and still remain eligible for an operating aid increase in the 1978-79 school year. For example, the formulas indicated in the tables which follow show that a district which has a net educational expense per pupil for the base year minus one (i.e., 1975-76 for 1977-78) equal to the state average (which preliminary data analysis shows to be $1,830) may increase its net educational expense per pupil by the same amount as the annual change in the New York - Northeastern New Jersey Consumer Price Index. The annual change in the index for the period ending January 1, 1977 is estimated to be 4.4 percent.

All districts -- regardless of relative net educational expense -- may increase their per pupil expense level by at least 2 percent. Further, no district may increase its per pupil spending any year for which this bill remains effective by more than 10 percent per pupil. The specific approach to be used by a district in determining its allowable net educational expense per pupil increase for the 1977-78 school year is described as follows:

Step 1: District determines its 1975-76 and 1976-77 net educational expense per pupil.

Step 2: District divides its net educational expense per pupil for the base year minus one (1975-76 for the 1977-78 school year) by the State's average net educational expense per pupil for the base year minus one (for 1975-76 the State average is estimated to be $1,830 per pupil) as follows:

$$\frac{\text{District net educational expense per pupil for base year minus one}}{\text{State average net educational expense per pupil for base year minus one}} = \text{District Expense Multiplier}$$

The district expense multiplier is located in column #1 of the following table. (note: The legislation instructs districts to interpolate between two points of their district expense multiplier -- carried to two decimals without rounding -- if not shown in the table).

Step 3: Once a district finds its net educational expense multiplier, it locates the corresponding New York - Northeastern New Jersey Consumer Price Index increment multiplier in column #2 of the following table.

District Expense Multiplier Based on Net Educational Expense Per Pupil[a]	New York - Northeastern New Jersey Consumer Price Index Increment Multiplier[b]
1.80 or more	.20%
1.60	.40
1.40	.60
1.20	.80
1.10	.90
1.00	1.00
.95	1.10
.90	1.20
.85	1.30
.80	1.40
.75	1.50

a
Calculated from the following formula:

$$\frac{\text{District net educational expense per pupil for base year minus one}}{\text{State average net educational expense per pupil for base year minus one}} = \text{District Expense Multiplier}$$

b
If the district expense multiplier falls between two points of column one, the district should determine the fractional relationship between the number in column one closest to its district expense multiplier and use this fraction to derive its consumer price index increment multiplier (column 2). Once the Consumer Price Index increment multiplier is determined, it is multiplied by the annual calendar year change in the New York - Northeastern New Jersey Consumer Price Index (expressed as a percent) in order to derive the allowable per pupil expense increase for the 1977-78 school year (subject to the 2 percent and 10 percent overall limits).

Step 4: The Consumer Price Index multiplier located in column 2 of the table is multiplied by the annual change in the New York - Northeastern New Jersey Consumer Price Index. (The annual change, to be reported as of January, 1977, is currently estimated to be 4.4 percent).

Step 5: The district may increase its 1976-77 net educational expense per pupil by the percentage calculated in Step 4 to determine its allowable increase for the 1977-78 school year subject to the 2 percent and 10 percent overall limits mentioned above.

Since the annual change in the Consumer Price Index for the New

York - Northeastern New Jersey area, to be reported as of January, 1977, is currently estimated to be 4.4 percent, the proposed per pupil expense limits would allow low expense districts to increase their net educational expense per pupil up to a maximum of 6.6 percent and remain eligible for a 1978-79 operating aid increase. High expense districts would be held to a per pupil expense increase of 2 percent if they wish to retain eligibility for the 1978-79 operating aid increase.

B. Operating Aid Formula Change for 1978-79:

The operating aid formula proposed for the 1978-79 school year provides for increased funds for all districts which comply with the per pupil expense limit outlined above. To provide operating aid increases for eligible districts during the 1978-79 school year, the aid ceilings for the two-tier operating aid formula proposed for the 1977-78 school year would be increased from $1,200 and $1,230 to $1,220 and $1,250, respectively. Districts which comply with the per pupil expense limits proposed for the 1977-78 and 1978-79 school years will receive increases in operating aid ranging from 2 percent to 6 percent per pupil in the 1978-79 school year.

Districts which exceed the allowable net educational expense per pupil limits in 1977-78 and 1978-79 will receive the lesser of a) the amount of operating aid received by the district in 1977-78 or b) the amount generated by the operating aid formula for the 1978-79 school year -- without the 2 percent minimum per pupil guarantee.